

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Liberty Township	County Jackson
Fiscal Year End June 30, 2006	Opinion Date December 18, 2006	Date Audit Report Submitted to State January 4, 2007	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | |
|-----|-------------------------------------|-------------------------------------|---|
| | | | Check each applicable box below. (See instructions for further detail.) |
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Karl L. Drake, CPA		Telephone Number 517-937-9333	
Street Address 3775 Kimmel Road		City Horton	State MI
		Zip 49246	
Authorizing CPA Signature 		Printed Name Karl L. Drake	License Number 1101016526

LIBERTY TOWNSHIP

JACKSON COUNTY, MICHIGAN

FINANCIAL STATEMENTS

JUNE 30, 2006

**KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT**

LIBERTY TOWNSHIP

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INDEPENDENT AUDITOR'S REPORT

Township Board
Liberty Township
Clarklake, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Liberty Township, as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Liberty Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Liberty Township as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2006, on our consideration of Liberty Township's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

The administration's discussion and analysis and budgetary comparison information on pages 3-9 and pages 31 and 32 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Liberty Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Karl L. Drake, P.C.
Certified Public Accountant

December 18, 2006

This section of the Liberty Township's annual financial report presents discussion and analysis of the Township's financial performance during the fiscal year ended June 30, 2006. It is best read in conjunction with the Township's financial statements that follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Liberty Township financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the entire Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds - the General Fund and the Building Department Fund - with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent for the benefit of others.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund and Building Department Fund
(Required Supplemental Information)

Other Supplemental Information

REPORTING THE TOWNSHIP AS A WHOLE

GOVERNMENT-WIDE FINANCIAL STATEMENTS

One of the most important questions asked about the Township is, "As a whole, what is the Township's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Township's financial statements, report information on the Township as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net assets (the difference between assets and liabilities, as reported in the statement of net assets) as one way to measure the Township's financial health or financial position. Over time, increases or decreases in the Township's net assets (as reported in the statement of activities) are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Township's operating results. However, the Township's goal is to provide services to its residents, not to generate profits as commercial entities do. Many other non-financial factors must be considered to assess the overall health of the Township.

The statement of net assets and statement of activities report the governmental activities for the Township, which encompass all of the Township's services, including general government, public safety, public works, and community enrichment. Property taxes and State Revenue Sharing finance most of these activities.

REPORTING THE TOWNSHIP'S MOST SIGNIFICANT FUNDS

FUND FINANCIAL STATEMENTS

The Township's fund financial statements provide detailed information about the most significant funds - not the Township as a whole. Some funds are required to be established by State law and by bond covenants. However, the Township establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Township use the following accounting approach:

Governmental Funds - All of the Township's services are reported in governmental funds. Governmental fund reporting focuses on money inflow and outflow, and the balances remaining at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Township and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in the Reconciliation on page 15 of this report.

REPORTING THE TOWNSHIP'S FIDUCIARY RESPONSIBILITIES

THE TOWNSHIP AS TRUSTEE

The Township is the trustee, or fiduciary, for its pension trust, tax collection and agency funds. All of the Township's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE TOWNSHIP AS A WHOLE

Recall that the statement of net assets provides the perspective of the Township as a whole. Table I provides a summary of the Township's net assets as of June 30, 2006 and 2005:

TABLE 1	Governmental Activities	
	(In Thousands)	
	2006	2005
ASSETS		
Current And Other Assets	\$ 1,032.5	\$ 2,337.9
Capital Assets - Net Of Accumulated Depreciation	956.2	1,032.8
TOTAL ASSETS	1,988.7	3,370.7
LIABILITIES		
Current Liabilities	182.1	159.8
Long-Term Liabilities	832.5	952.8
Other Liabilities	553.8	0.0
TOTAL LIABILITIES	1,568.4	1,112.6
NET ASSETS		
Invested In Property And Equipment - Net Of Related Debt	3.4	831.7
Restricted	0.0	1064.7
Unrestricted	416.9	361.7
TOTAL NET ASSETS	\$ 420.3	\$ 2,258.1

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Township's governmental activities is discussed below. The Township's net assets were \$420.3 thousand at June 30, 2006. Capital assets, net of related debt totaling \$3.4 thousand compares the original cost, less depreciation of the Township's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Township's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$416.9 thousand) was unrestricted.

The \$416.9 thousand in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Township as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2006.

TABLE 2	Governmental Activities	
	(In Thousands)	
	2006	2005
REVENUE		
Program Revenue		
Charges For Services	\$ 62.2	\$ 63.6
Grants And Categoricals	0.0	0.0
General Revenue		
Property Taxes	105.9	98.5
Special Assessments	78.2	0.0
State Revenue	208.0	196.0
Other	63.2	71.1
TOTAL REVENUE	\$ 517.5	\$ 429.2
FUNCTION/PROGRAM EXPENSES		
General Government	\$ 203.3	\$ 185.0
Public Safety	109.0	108.0
Public Roads	6.2	4.3
Community Enrichment	0.0	0.0
Interest on Long-Term Debt	45.9	0.5
Depreciation (unallocated)	87.0	60.7
TOTAL FUNCTION/PROGRAM EXPENSES	451.4	358.5
INCREASE IN NET ASSETS	\$ 66.1	\$ 70.7

As reported in the statement of activities, the cost of all of our governmental activities this year was \$451.4 thousand. Certain activities were partially funded from those who benefited from the programs (\$62.2 thousand) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$0.0 thousand). The remaining "public benefit" portion of the governmental activities were paid with \$105.9 thousand in taxes, \$208.0 thousand in State Revenue, and with other revenues, such as interest and general entitlements.

The Township experienced an increase in net assets of \$66.1 thousand. The key reason for the increase in net assets was controlling expenditures. However, the accounting for the Round/Farwell Lake Sewer Construction changed, causing a one-time adjustment to net assets of \$1,903.0 thousand. For more information on this accounting change, see Note 12 in Notes to the Financial Statements. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the Township's taxpayers by each of these functions. Since property taxes for operations and State Revenue constitute the vast majority of the Township's operating revenue sources, the Township Board must annually evaluate the needs of the Township and balance those needs with State-prescribed available unrestricted resources.

THE TOWNSHIP'S FUNDS

As noted earlier, the Township uses funds to help control and manage money for certain purposes. Looking at 77 funds helps the reader consider whether the Township is accountable for the resources taxpayers and others provide and may give more insight into the Township's overall financial health.

As the Township completed this year, the governmental funds reported a combined fund balance of \$425.5 thousand, which is an increase of \$30.2 thousand from last year. The primary reasons for the increase are controlling expenditures. The accounting changes discussed above resulted in the Township's funds showing a decrease in fund balance of approximately \$1,000 thousand. The General Fund, the principal operating fund, saw the fund balance increase \$5,561 to \$191,136, which is greater than the budgeted increase amount of \$-0-.

MAJOR FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Township amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSET

At June 30, 2006, the Township had \$956.2 thousand invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$76.5 thousand or 7 percent, from last year.

	2006	2005
Land	\$ 52,863	\$ 52,863
Land Improvements	48,722	48,722
Buildings and Improvements	218,039	218,039
Fire Equipment	149,467	141,107
Fire Vehicles	478,743	518,605
Office Equipment	40,208	51,718
Intangible Assets	546,050	546,050
Total Capital Assets	1,534,092	1,577,104
Less Accumulated Depreciation	577,895	544,358
Net Capital Assets	\$ 956,197	\$ 1,032,746

More detailed information about long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The elected officials and administration considered many factors when setting the Township's 2007 fiscal year budget.

Because the Township's revenue is heavily dependent on State Shared Revenue, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to Townships. The State periodically holds a revenue consensus conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

The Township's budget is very similar to the prior year. Interest rates on the Township's savings accounts should increase slightly, providing slightly higher interest revenues. The Township's taxable value will be higher, increasing the property tax revenues. Expenditures will be very consistent with last year.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Township's citizens, taxpayers, customers, investors and creditors of Liberty Township with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Township Supervisor, 101 W. Liberty Road, Clarklake, Michigan 49234.

BASIC FINANCIAL STATEMENTS

LIBERTY TOWNSHIP

Government-Wide Financial Statements

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 372,183
Accounts Receivable	79,984
Prepaid Expenditures	26,522
Total Current Assets	<u>478,689</u>
Non-Current Assets	
Capital Assets	1,534,092
Less: Accumulated Depreciation	<u>-577,895</u>
Total Non-Current Assets	<u>956,197</u>
Other Assets	
Special Assessment Receivable	<u>553,791</u>
TOTAL ASSETS	<u>\$ 1,988,677</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Current Portion of Long-Term Debt	\$ 120,295
Accounts Payable	49,605
Accrued Salaries and Expenses	4,562
Accrued Interest	7,620
Total Current Liabilities	<u>182,082</u>
Non-Current Liabilities	
Long-Term Debt	832,520
Compensated Absences and Severance Pay	<u>---</u>
Total Non-Current Liabilities	<u>832,520</u>
Other Liabilities	
Deferred Revenues	<u>553,791</u>
TOTAL LIABILITIES	<u>1,568,393</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,382
Restricted for Debt Service	---
Unrestricted	416,902
TOTAL NET ASSETS	<u>420,284</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,988,677</u>

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

		Program Revenues		Governmental Activities
				Net <Expense>
	Expenses	Charges For Services	Operating Grants	Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ 203,298	\$ 5,066	\$ ---	\$ -198,232
Public Safety	108,949	57,122	---	-51,827
Public Works	6,189	---	---	-6,189
Community Enrichment	---	---	---	---
Interest on Long-Term Debt	45,907	---	---	-45,907
Depreciation (Unallocated)	87,049	---	---	-87,049
Total Governmental Activities	<u>\$ 451,392</u>	<u>\$ 62,188</u>	<u>\$ ---</u>	<u>\$ -389,204</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				\$ 105,916
Property Taxes, Levied for Debt Service				---
Special Assessments				78,235
State of Michigan Aid				208,044
Interest Earnings				5,753
Other				57,400
Total General Revenue				<u>455,348</u>
Deposits with County Transferred to County (see Note 12)				-1,213,771
Deferral of Special Assessments to be Collected (see Note 12)				-632,025
Debt Service Transferred to County (see Note 12)				<u>-58,115</u>
CHANGE IN NET ASSETS				-1,837,767
NET ASSETS - BEGINNING OF YEAR				<u>2,258,051</u>
NET ASSETS - END OF YEAR				<u>\$ 420,284</u>

See Accompanying Notes to Financial Statements.

LIBERTY TOWNSHIP

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	General	Building Department	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 163,337	\$ 29,213	\$ 179,633	\$ 372,183
Accounts Receivable	---	---	13,536	13,536
Taxes and Fees Receivable	---	---	---	---
Due from Other Governmental Units	65,078	---	---	65,078
Due from Other Funds	4,293	---	20,004	24,297
Inventories	---	---	---	---
Prepaid Expenditures	26,522	---	---	26,522
Special Assessments Receivable	---	---	553,791	553,791
TOTAL ASSETS	\$ 259,230	\$ 29,213	\$ 766,964	\$ 1,055,407
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 49,605	\$ ---	\$ ---	\$ 49,605
Accrued Salaries and Withholdings	4,562	---	---	4,562
Due to Other Funds	13,927	2,923	6,077	22,927
Deferred Revenue	---	---	553,791	553,791
TOTAL LIABILITIES	68,094	2,923	559,868	630,885
FUND BALANCES				
Reserved for Inventories	---	---	---	---
Unreserved, Designated	---	26,290	207,096	233,386
Unreserved and Undesignated	191,136	---	---	191,136
TOTAL FUND BALANCES	191,136	26,290	207,096	424,522
TOTAL LIABILITIES AND FUND BALANCES	\$ 259,230	\$ 29,213	\$ 766,964	\$ 1,055,407
TOTAL GOVERNMENTAL FUND BALANCES				\$ 424,522
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:				
Cost of the Capital Assets				\$ 1,534,092
Accumulated Depreciation				-577,895
				956,197
Long-Term Liabilities are not due and payable in the current period and are not reported in the fund				
Long-term debt				-952,815
Compensated absences				---
Accrued interest is not included as a liability in governmental funds				-7,620
NET ASSETS OF GOVERNMENTAL ACTIVITIES				\$ 420,284

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	General	Building Department	Other Non-Major Governmental Funds	Total Governmental Funds
REVENUE				
Property Taxes	\$ 105,916	\$ ---	\$ ---	\$ 105,916
Special Assessments	---	---	78,235	78,235
State Grants	208,044	---	---	208,044
Permits and Licenses	9,493	47,629	---	57,122
Charges for Services	5,066	---	---	5,066
Interest	949	171	4,633	5,753
Other	7,861	1,602	47,937	57,400
TOTAL REVENUE	337,329	49,402	130,805	517,536
EXPENDITURES				
General Government	202,361	---	937	203,298
Public Safety	65,540	41,124	52	106,716
Public Works	56,189	---	---	56,189
Recreational and Cultural	---	---	---	---
Debt Service	---	---	108,441	108,441
Capital Outlay	7,678	---	5,055	12,733
TOTAL EXPENDITURES	331,768	41,124	114,485	487,377
EXCESS OF REVENUE OVER EXPENDITURES	5,561	8,278	16,320	30,159
OTHER FINANCING SOURCES <USES>				
Operating Transfers In	---	---	---	---
Operating Transfers Out	---	---	---	---
Transfers to Other Governments	---	---	-1,032,261	-1,032,261
TOTAL OTHER FINANCING SOURCES <USES>	---	---	-1,032,261	-1,032,261
NET CHANGE IN FUND BALANCES	5,561	8,278	-1,015,941	-1,002,102
FUND BALANCES - BEGINNING OF YEAR	185,575	18,012	1,223,037	1,426,624
FUND BALANCES - END OF YEAR	\$ 191,136	\$ 26,290	\$ 207,096	\$ 424,522

See Accompanying Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES****YEAR ENDED JUNE 30, 2006****NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ -1,002,102**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-87,049	
Capital Outlay	<u>10,500</u>	-76,549

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid -7,100

- Repayment of loan principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 119,634

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds ---

- Deferral of Special Assessment Receivable (See Note 12) -632,025

- Additional deposits transferred to County (See Note 12) -239,625

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ -1,837,767

STATEMENT OF FIDUCIARY NET ASSETS**JUNE 30, 2006****ASSETS**

Cash	\$ 3,895
Investments	79,398
Accounts Receivable	<u>16,935</u>

TOTAL ASSETS	<u>\$ 100,228</u>
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LIABILITIES

Due to Other Funds	\$ 1,370
Due to Other Governments	<u>2,525</u>

TOTAL LIABILITIES	<u>\$ 3,895</u>
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NET ASSETS

Held in trust for pension benefits	<u>\$ 96,333</u>
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LIBERTY TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Liberty Township covers an area of approximately 36 square miles located in Jackson County, Michigan. The Township operates under an elected Board of Trustees consisting of five members and provides various services to its approximately 3,000 residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the government receives cash.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Township currently uses the following Special Revenue Funds:

The *Building Department Fund* accounts for all activities of the building department. This fund was established to facilitate compliance with Michigan Public Act 245 of 1999, which requires that fees charged bear a reasonable relationship to the costs of operating a building department.

LIBERTY TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

B. BASIS OF PRESENTATION (CONTINUED)

GOVERNMENTAL FUNDS (CONTINUED)

Special Revenue Funds (Continued)

The *Fire Equipment Fund* accounts for revenue set aside by the Township Board to finance the purchase of fire capital equipment. This revenue includes 2/3rd of the impact fee paid by a landfill located within the Township, grants, and transfers from the General Fund.

The *Central Complex Fund* accounts for 1/3rd of the impact fee paid by a landfill located within the Township. This money has been designated to finance the construction of a township hall/fire station complex in a location closer to the center of the Township.

The *Improvement Revolving Fund* accounts for all resources set aside for future capital improvements.

Debt Retirement Funds – These funds are used to account for the accumulation of resources for, and for the payment of general long-term debt principal, interest and related costs. The Township maintains one debt retirement fund (the Sewer Fund) to retire the outstanding Jackson County Capital Lease indebtedness.

FIDUCIARY FUNDS

Fiduciary Funds - These funds are used to account for assets held in trust or as an agent for others. The Township currently maintains the following fiduciary funds.

The *Pension Trust Fund* accounts for the activity of the Township's defined contribution retirement plan, which accumulates resources for retirement benefit payments to qualified Township employees.

The *Agency Funds – Current Tax and Employee Withholding Funds* account for assets held for other governments and individuals in an agency capacity.

C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund and Special Revenue Fund are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES

Real and personal property taxes are assessed as of December 31 and attach as an enforceable lien on property as of December 1 of the subsequent year. Taxes are due and payable as of February 28. The Township is responsible for assessing, collecting and distributing property taxes in accordance with State law. The property tax revenues in the accompanying financial statements were recognized as those levied during the year.

All unpaid taxes become delinquent after February 28, at which time the uncollected real taxes are returned to Jackson County for collection and to be added to the delinquent tax rolls. Jackson County purchases all of the delinquent real property taxes of Liberty Township. The County sells tax notes, the proceeds of which are used to pay the Township for the taxes.

The Township is authorized to assess 1 mill for general operations. Millage rates levied for 2005 were .7629 mills for operations. Total taxable value of real and personal property in the Township was \$96,384,297.

The Township is responsible for the collection of delinquent personal property taxes.

E. CASH EQUIVALENTS

The Township considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

F. FINANCIAL INSTRUMENTS

The Township does not require collateral to support financial instruments subject to credit risk.

G. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

H. FUND EQUITY

Reservations of fund balance represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

LIBERTY TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

I. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. streets, bridges, drains), are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value of the asset or materially extend its useful life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land and Improvements	10-20 years
Buildings and Additions	10-40 years
Vehicles	5-20 years
Fire Equipment	5-20 years
Office Equipment	5 years
Intangible assets	20 years

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

K. PRIOR YEAR INFORMATION

Certain prior year information has been modified to match the format of the June 30, 2006 financial presentation.

L. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Township, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township is in compliance with State law regarding their cash deposits.

The Township maintains all of its cash deposits at four banks and one credit union.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC and FCUA)	\$ 235,650	\$ 235,650
Uninsured & Uncollateralized	136,428	148,474
Total Deposits	<u>\$ 372,078</u>	<u>\$ 384,124</u>

Differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

LIBERTY TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - ACCUMULATED FUND DEFICITS

There are no accumulated fund deficits.

NOTE 4 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2006, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
General Fund	\$ 2,923	Building Department Fund	\$ 2,923
General Fund	1,370	Tax Collection Fund	1,370
Improvement Revolving Fund	13,927	General Fund	13,927
Fire Equipment Fund	6,077	Central Complex Fund	6,077
	<u>\$ 24,297</u>		<u>\$ 24,297</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Township's Governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<u>Capital Assets Not Being Depreciated</u>				
Land	\$ 52,863	\$ ---	\$ ---	\$ 52,863
<u>Capital Assets Being Depreciated</u>				
Land Improvements	\$ 48,722	\$ ---	\$ ---	\$ 48,722
Buildings And Improvements	218,039	---	---	218,039
Fire Equipment	141,107	10,500	2,140	149,467
Fire Vehicles	518,605	---	39,862	478,743
Office Equipment	51,718	---	11,510	40,208
Intangible Assets	546,050	---	---	546,050
Total Capital Assets Being Depreciated	<u>\$ 1,524,241</u>	<u>\$ 10,500</u>	<u>\$ 53,512</u>	<u>\$ 1,481,229</u>

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<u>Accumulated Depreciation</u>				
Land Improvements	\$ 27,908	\$ 2,436	\$ ---	\$ 30,344
Buildings And Improvements	131,348	9,077	---	140,425
Fire Equipment	63,729	13,290	2,140	74,879
Fire Vehicles	160,900	26,985	39,862	148,023
Office Equipment	30,808	7,958	11,510	27,256
Intangible Assets	129,665	27,303	---	156,968
Total Accumulated Depreciation	544,358	87,049	53,512	577,895
Net Capital Assets Being Depreciated	979,883	-76,549	---	903,334
Net Capital Assets	\$ 1,032,746	\$ -76,549	\$ ---	\$ 956,197

Depreciation expense was not charged to activities as the Township considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 - EXPENDITURES IN EXCESS OF BUDGET

During the year ended June 30, 2006, the Township incurred expenditures that were in excess of the amounts budgeted as follows:

	Budget	Actual	Variance
General Fund			
Public Works	\$ 56,082	\$ 56,189	\$ 107
Fire Equipment Fund			
Debt Service	---	16,631	16,631
Administrative	---	52	52

LIBERTY TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RETIREMENT PLAN

The Liberty Township Group Pension Plan is a single employer public employee retirement system that administers the Township's defined contribution pension plan for all full-time salaried or clerical employees.

The financial statements of the Plan are included as a fiduciary fund of the Township. The Township is the only contributor to the pension plan.

A defined contribution pension plan provides pension benefits in return for service rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depends solely on the amount contributed to the participant's account and the returns earned on investments of these contributions. Contributions by the Township vest immediately. The Township is required to contribute an amount equal to 11% of compensation. Contributions are not reduced by plan charges.

During the year, the Township's required and actual contributions amounted \$16,935, which was 11.0% of its current-year covered payroll.

Total payroll for the fiscal year ending June 30, 2006 was \$169,163 and total payroll subject to retirement benefits was \$153,955.

The pension plan held no securities of the Township or other related parties during the year or as of the close of the fiscal year. The pension plan monies are invested in various mutual funds under the direction of the Principal Financial Group.

NOTE 8 - ACCUMULATED SICK AND VACATION PAY

Amounts accumulated for accrued sick and vacation pay are immaterial and have not been entered in the accounting records.

NOTE 9 - RISK MANAGEMENT AND LITIGATION

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the Township has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. At June 30, 2006, no claims exist and no provision has been entered into the accounting records.

NOTE 10 – LONG-TERM DEBT

INSTALLMENT PURCHASE AGREEMENT

During 2005, the Township entered into an installment purchase agreement with the manufacturer of fire apparatus, which immediately sold the agreement to Comerica Bank. The Township financed \$75,000 of the purchase price of its fire apparatus. The terms of the agreement call for fixed quarterly principal and interest payments of \$4,157.84 for five years, with interest on the unpaid balance at 3.90%. The Township intends to finance this debt with future impact fees received from a landfill located within the township. This activity is reflected in the Fire Equipment Fund. The total balance outstanding at June 30, 2006 was \$61,241.10

Date	Rate	Payment Amount	Debt Service Requirements		Principal Balance	Fiscal Year
			Principal	Interest		
08/10/06	3.90%	\$ 4,157.84	\$ 3,547.46	\$ 610.38	\$ 57,693.64	
11/10/06	3.90%	4,157.84	3,582.83	575.01	54,110.81	
02/10/07	3.90%	4,157.84	3,618.54	539.30	50,492.27	
05/10/07	3.90%	4,157.84	3,671.01	486.83	46,821.26	06/30/07
		16,631.36	14,419.84	2,211.52		
08/10/07	3.90%	4,157.84	3,691.19	466.65	43,130.08	
11/10/07	3.90%	4,157.84	3,727.98	429.86	39,402.10	
02/10/08	3.90%	4,157.84	3,765.13	392.71	35,656.97	
05/10/08	3.90%	4,157.84	3,810.38	347.46	31,826.59	06/30/08
		16,631.36	14,994.68	1,636.68		
08/10/08	3.90%	4,157.84	3,840.64	317.20	27,985.95	
11/10/08	3.90%	4,157.84	3,878.91	278.93	24,107.04	
02/10/09	3.90%	4,157.84	3,917.57	240.27	20,189.46	
05/10/09	3.90%	4,157.84	3,963.18	194.66	16,226.28	06/30/09
		16,631.36	15,600.30	1,031.06		
08/10/09	3.90%	4,157.84	3,996.11	161.73	12,230.17	
11/10/09	3.90%	4,157.84	4,035.95	121.89	8,194.22	
02/10/10	3.90%	4,157.84	4,076.17	81.67	4,118.05	
05/10/10	3.90%	4,157.75	4,118.05	39.70	\$ 0.00	06/30/10
		\$ 16,631.27	\$ 16,226.28	\$ 404.99		

LIBERTY TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT (CONTINUED)

CAPITAL LEASE PAYABLE

The Township, in joint arrangement with Hanover Township, has financed the construction of sewer disposal facilities through the County of Jackson, under capital lease obligations. The County has issued bonds and will supervise the construction of the facilities. The Townships lease the facilities, with semi-annual payments in amounts necessary to cover the County's debt service requirements on the underlying bonds.

The agreement covers the Round/Farwell Lake sewer project accounted for in the Sewer Fund. This project entails parts of two townships. Liberty Township is responsible for 22.35% of the total construction bonds issued by the County (120 residential equivalent units of the 535 total in the project). This total, \$871,650, has been recognized, along with a deposit due from the County of Jackson. The Township will finance repayment of the lease through a special assessment levied upon benefiting property owners (see Note 11). The total outstanding balance of this lease was \$815,775 at June 30, 2006.

Date	Rate	Debt Service Requirements		Fiscal Year	Balance
		Principal	Interest	Total	
06/30/06					\$ 815,775.00
10/01/06	3.00%		\$ 14,562.42		
04/01/07	3.00%	\$ 55,875.00	14,562.42	\$ 84,999.84	759,900.00
10/01/07			13,724.30		
04/01/08	3.00%	55,875.00	13,724.30	83,323.60	704,025.00
10/01/08			12,866.17		
04/01/09	3.00%	50,287.50	12,866.17	76,019.84	653,737.50
10/01/09			12,131.86		
04/01/10	3.00%	50,287.50	12,131.86	74,551.22	603,450.00
10/01/10			11,377.55		
04/01/11	3.25%	50,287.50	11,377.55	73,042.60	553,162.50
10/01/11			10,560.28		
04/01/12	3.25%	50,287.50	10,560.28	71,408.06	502,875.00
10/01/12			9,743.20		
04/01/13	3.50%	50,287.50	9,743.20	69,733.90	452,587.50
10/01/13			8,863.17		
04/01/14	3.50%	50,287.50	8,863.17	68,013.84	402,300.00
10/01/14			7,983.14		
04/01/15	3.75%	50,287.50	7,983.14	66,253.78	352,012.50
10/01/15			7,040.25		
04/01/16	4.00%	50,287.50	7,040.25	64,368.00	301,725.00
10/01/16			6,034.50		
04/01/17	4.00%	50,287.50	6,034.50	62,356.50	251,437.50
10/01/17			5,028.75		
04/01/18	4.00%	50,287.50	5,028.75	60,345.00	201,150.00
10/01/18			4,023.00		
04/01/19	4.00%	50,287.50	4,023.00	58,333.50	150,862.50
10/01/19			3,017.25		
04/01/20	4.00%	50,287.50	3,017.25	56,322.00	100,575.00
10/01/20			2,011.50		
04/01/21	4.00%	50,287.50	2,011.50	54,310.50	50,287.50
10/01/21			1,005.75		
04/01/22	4.00%	50,287.50	1,005.75	52,299.00	---

TOWNSHIP ROAD AGREEMENTS

The Township currently is financing the grade and gravel and subsequent paving of a two-mile stretch of Vicary Road with the Jackson County Road Commission. There is no interest charged on this agreement. The Road Commission arranged the project funding so the Township owes \$50,000 annually (as this is the maximum amount for which the Road Commission will provide matching funds). This amount is billed in October. Under this agreement there is currently one installment of \$50,000 due in October 2006, and a final payment of \$25,799 due in October 2007. The total amount owed at June 30, 2006 was \$75,799.

The following is a summary of the Township's general long-term debt transactions for the year ended June 30, 2006.

	Balance 6/30/05	New Issues	Payments	Balance 6/30/06
Installment Purchase Agreement:				
2005 Fire Truck Purchase	\$ 75,000	\$ ---	\$ 13,759	\$ 61,241
Township Road Agreements	125,799	---	50,000	75,799
Capital Leases Payable				
Round/Farwell Lake	871,650	---	55,875	815,775
	<u>\$ 1,072,449</u>	<u>\$ ---</u>	<u>\$ 119,634</u>	<u>\$ 952,815</u>

The following is a summary of debt service principal requirements for the next five years.

	Fire Truck	Roads	Sewer Lease	Total
Year Ending June 30, 2007	\$ 14,420	\$ 50,000	\$ 55,875	\$ 120,295
2008	14,995	25,799	55,875	96,669
2009	15,600	---	50,288	65,888
2010	16,226	---	50,287	66,513
2011	---	---	50,288	50,288
2012 and thereafter	---	---	553,162	553,162
	<u>\$ 61,241</u>	<u>\$ 75,799</u>	<u>\$ 815,775</u>	<u>\$ 952,815</u>

LIBERTY TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - SPECIAL ASSESSMENT

A Special Assessment district has been established by the Township to collect monies for the payment of the Capital Lease for the sewer project. The Township records all uncollected special assessments as deferred revenue. Interest is charged at 1% over the average bond rate.

Total Special Assessment	\$ 1,045,440
Amounts Collected - Prior Years	-413,414
Amounts Collected - Current Year	<u>-78,235</u>
Receivable/Deferred Revenue	<u>\$ 553,791</u>

NOTE 12 - ROUND/FARWELL LAKE SEWER CONSTRUCTION

The Township, along with Hanover Township, is participating in the construction of a sewer disposal system in the Round/Farwell Lake section of the township. In order to obtain the best financing for the project, the townships have contracted with Jackson County to construct the project.

Initially the Township deposited Special Assessment collections with the County. Also, the Township's portion of construction debt proceeds were included in the Township's assets. On the prior year audit report, all of this activity was included in the Sewer Fund, a proprietary fund, in anticipation of the Township owning and operating the Sewer activity.

In the year ended June 30, 2006, it was decided that Hanover Township would operate all of the sewer activity and that Liberty Township would simply collect the special assessment revenue and transfer them to Hanover Township.

In this financial statement, the Sewer Fund is now considered a debt retirement fund, whose purpose is to collect special assessment revenue and pay-off the capital lease owed to Jackson County.

The transfer of the construction debt proceeds and previously collected special assessment revenue to Hanover Township resulted in losses being recorded in the Liberty Township financial records in this fiscal year.

REQUIRED SUPPLEMENTAL INFORMATION

LIBERTY TOWNSHIP

Budgetary Comparison Schedule

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual (Budgetary Basis)	Variance
	Original	Final		
REVENUE				
Property Taxes	\$ 104,631	\$ 104,631	\$ 105,916	\$ 1,285
State Revenue	209,515	209,515	208,044	-1,471
Permits and Licenses	10,000	10,000	9,493	-507
Charges for Services	14,416	14,416	5,066	-9,350
Interest	500	500	949	449
Other	4,600	4,600	7,861	3,261
Transfers In	16,351	26,320	---	-26,320
TOTAL REVENUE	360,013	369,982	337,329	-32,653
EXPENDITURES				
General Government	215,670	225,639	202,361	23,278
Public Safety	80,261	80,261	65,540	14,721
Public Works	56,082	56,082	56,189	-107
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	8,000	8,000	7,678	322
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	360,013	369,982	331,768	38,214
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	---	---	5,561	5,561
BUDGETARY FUND BALANCE - JULY 1, 2005	185,575	185,575	185,575	---
BUDGETARY FUND BALANCE - JUNE 30, 2006	\$ 185,575	\$ 185,575	\$ 191,136	\$ 5,561

BUILDING DEPARTMENT FUND**YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	
	Original	Final	(Budgetary Basis)	Variance
REVENUE				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
State Revenue	---	---	---	---
Permits and Licenses	42,250	42,250	47,629	5,379
Charges for Services	---	---	---	---
Interest	100	100	171	71
Other	---	---	1,602	1,602
Transfers In	----	----	---	---
TOTAL REVENUE	42,350	42,350	49,402	7,052
EXPENDITURES				
General Government	---	---	---	---
Public Safety	42,747	45,813	41,124	4,689
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	42,747	45,813	41,124	4,689
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-397	-3,463	8,278	11,741
BUDGETARY FUND BALANCE - JULY 1, 2005	18,012	18,012	18,012	---
BUDGETARY FUND BALANCE - JUNE 30, 2006	\$ 17,615	\$ 14,549	\$ 26,290	\$ 11,741

LIBERTY TOWNSHIP

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

BALANCE SHEET**JUNE 30, 2006****ASSETS**

Cash	\$ 163,337
Accounts Receivable	---
Prepaid Expenses	26,522
Due for Other Governments	65,078
Due from Other Funds	4,293

TOTAL ASSETS	\$ 259,230
---------------------	-------------------

LIABILITIES AND FUND BALANCE**LIABILITIES**

Accounts Payable	\$ 49,605
Payroll Taxes Payable	4,562
Due to Other Funds	13,927
TOTAL LIABILITIES	68,094

FUND BALANCE

Reserved	---
Unreserved - Designated	---
Unreserved - Undesignated	191,136
TOTAL FUND BALANCE	191,136

TOTAL LIABILITIES AND FUND BALANCE	\$ 259,230
---	-------------------

LIBERTY TOWNSHIP

General Fund

STATEMENT OF REVENUE AND EXPENDITURES BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
Property Taxes			
Current Tax Levy	\$ 73,521	\$ 73,384	\$ -137
Administration Fees	28,360	28,437	77
Delinquent Personal Property Taxes	---	4	4
Penalties And Interest	2,500	3,809	1,309
Trailer Park Taxes	250	282	32
Total Property Taxes	104,631	105,916	1,285
Licenses And Permits			
Cable Vision Fees	7,000	7,168	168
Conditional Use And Variance Fees	3,000	2,325	-675
Total Licenses And Permits	10,000	9,493	-507
State Revenue			
State Shared Revenue	205,815	199,325	-6,490
Metro Act	3,700	8,719	5,019
Total State Revenue	209,515	208,044	-1,471
Charges For Services			
Tax Collection Fee	7,686	900	-6,786
Cemetery Administrative Fee	100	60	-40
Grave Openings and Marker Bases	3,780	1,612	-2,168
Cemetery lot sales	1,200	750	-450
Fax and Information Requests	1,650	1,744	94
Total Charges For Services	14,416	5,066	-9,350
Interest	500	949	449
Facility Rental	1,300	935	-365
Other			
Miscellaneous	300	5,340	5,040
Refunds and Reimbursements	3,000	1,586	-1,414
Total Other	3,300	6,926	3,626
Transfers In	26,320	---	-26,320
TOTAL REVENUE	\$ 369,982	\$ 337,329	\$ -32,653

	Budget	Actual	Variance Favorable <Unfavorable>
EXPENDITURES			
General Government			
<u>Legislative Board</u>			
Salaries and wages - Board	\$ 3,600	\$ 3,192	\$ 408
Salaries and wages - Clerical	9,072	9,644	-572
Payroll taxes	938	5,826	-4,888
Retirement	1,394	4,350	-2,956
Office supplies	2,900	4,937	-2,037
Professional and contracted services	8,500	3,216	5,284
Clean-up contracted services	1,600	1,987	-387
Mowing and snow removal	8,100	5,972	2,128
Repairs and maintenance	2,500	682	1,818
Conferences and workshops	1,000	516	484
Printing and publishing	3,700	2,462	1,238
Insurance and bonds	25,687	20,117	5,570
Miscellaneous	500	---	500
Computer software and training	4,400	1,551	2,849
Membership/dues/mileage	4,000	3,925	75
Newsletter	500	231	269
Total Legislative Board	78,391	68,608	9,783
<u>Supervisor</u>			
Salaries and wages	10,428	10,428	---
Payroll Taxes	1,036	798	238
Retirement	1,540	2,056	-516
Office Supplies	2,500	1,420	1,080
Memberships/dues/mileage	1,400	1,100	300
Conferences and workshops	1,500	773	727
Equipment	750	---	750
Total Supervisor	19,154	16,575	2,579
<u>Elections</u>			
Salaries and wages	3,000	---	3,000
Payroll taxes	222	---	222
Office supplies	600	293	307
Professional fees	2,000	700	1,300
Miscellaneous	200	30	170
Printing	350	---	350
Total Elections	\$ 6,372	\$ 1,023	\$ 5,349

**STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL (CONTINUED)**

YEAR ENDED JUNE 30, 2006

	Budget	Actual	Variance Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
General Government (Continued)			
<u>Assessor</u>			
Salaries and wages	\$ 30,420	\$ 28,482	\$ 1,938
Payroll taxes	1,987	1,496	491
Retirement	2,953	3,346	-393
Memberships/dues/mileage	---	19	-19
Conferences and workshops	---	125	-125
Total Assessor	35,360	33,468	1,892
<u>Board of Review</u>			
Salaries and wages	1,700	1,860	-160
Payroll taxes	126	251	-125
Printing	120	106	14
Conferences and workshops	100	---	100
Total Board of Review	2,046	2,217	-171
<u>Clerk</u>			
Salaries and wages	23,984	21,767	2,217
Payroll taxes	1,775	3,113	-1,338
Retirement	2,638	2,394	244
Office supplies	450	50	400
Memberships/dues/mileage	800	267	533
Conferences and workshops	800	160	640
Equipment	500	---	500
Total Clerk	30,947	27,751	3,196
<u>Treasurer</u>			
Salaries and wages	24,984	24,018	966
Payroll taxes	1,849	1,837	12
Retirement	2,748	2,641	107
Office supplies	1,400	2,107	-707
Memberships/dues/mileage	---	43	-43
Conferences and workshops	600	---	600
Equipment	150	---	150
Total Treasurer	\$ 31,731	\$ 30,646	\$ 1,085

	Budget	Actual	Variance Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
General Government (Continued)			
<u>Township Hall</u>			
Salaries and wages	\$ 2,300	\$ 3,053	\$ -753
Retirement	423	293	130
Utilities	3,400	3,071	329
Building maintenance	1,800	3,700	-1,900
Mowing and snowplowing	400	1,205	-805
Telephone/internet	2,000	2,342	-342
Total Township Hall	10,323	13,664	-3,341
<u>Cemeteries</u>			
Salaries and wages	2,014	1,984	30
Payroll taxes	149	403	-254
Retirement	637	515	122
Grave Openings/Closings	2,780	1,500	1,280
Mileage	175	224	-49
Markers and bases	1,000	568	432
Repairs and maintenance	800	1,008	-208
Total Cemeteries	7,555	6,202	1,353
<u>Masonic Lodge</u>			
Salaries and wages	260	60	200
Mowing and snowplowing	1,000	955	45
Utilities	1,500	1,178	322
Repairs and maintenance	1,000	14	986
Total Masonic Lodge	3,760	2,207	1,553
Total General Government	\$ 225,639	\$ 202,361	\$ 23,278

LIBERTY TOWNSHIP

General Fund

STATEMENT OF REVENUE AND EXPENDITURES BUDGET AND ACTUAL (CONTINUED)

YEAR ENDED MARCH 31, 2006

	Budget	Actual	Variance Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Public Safety			
<u>Fire Department</u>			
Salaries and wages	\$ 35,706	\$ 30,255	\$ 5,451
Payroll taxes	3,928	2,542	1,386
Retirement	1,800	1,338	462
Education and training	2,500	2,960	-460
Medical expense	2,000	477	1,523
Insurance	3,597	6,242	-2,645
Telephone/internet	1,000	737	263
Memberships/dues/mileage	900	612	288
Operating supplies	5,300	4,525	775
Utilities	2,750	2,553	197
Equipment maintenance	1,800	1,651	149
Radio maintenance	700	501	199
Building maintenance	3,000	393	2,607
Vehicle maintenance	4,500	2,161	2,339
Total Fire Department	69,481	56,947	12,534
<u>Zoning and Planning</u>			
Salaries and Wages	8,880	7,966	914
Region 2 expenditures	1,500	267	1,233
Conferences and workshops	400	360	40
Printing and Publishing	---	---	---
Legal Fees	---	---	---
Total Zoning and Planning	10,780	8,593	2,187
Total Public Safety	\$ 80,261	\$ 65,540	\$ 14,721

	Budget	Actual	Variance Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Public Works			
<u>Street Lighting</u>	\$ 1,100	\$ 1,449	\$ -349
<u>Highways and Roads</u>			
Miscellaneous	1,500	387	1,113
Dust Control	3,482	4,353	-871
Debt Retirement	50,000	50,000	---
Total Highways and Roads	54,982	54,740	242
Total Public Works	56,082	56,189	-107
Capital Outlay			
Township Hall	---	---	---
Fire Department	8,000	7,678	322
Total Capital Outlay	8,000	7,678	322
TOTAL EXPENDITURES	\$ 577,275	\$ 582,181	\$ -4,906

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

June 30, 2006

	Building Dept.	Fire Equip.	Central Complex	Improvement Revolving	Total
ASSETS					
Cash	\$ 29,213	\$ 30,640	\$ 107,003	\$ 41,990	\$ 208,846
Accounts Receivable	---	9,024	4,512	---	13,536
Taxes Receivable	---	---	---	---	---
Prepaid Expenses	---	---	---	---	---
Due from Other Funds	---	6,077	---	13,927	20,004
TOTAL ASSETS	\$ 29,213	\$ 45,741	\$ 111,515	\$ 55,917	\$ 242,386
LIABILITIES AND FUNDBALANCES					
LIABILITIES					
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	2,923	---	6,077	---	9,000
TOTAL LIABILITIES	2,923	---	6,077	---	9,000
FUND BALANCES	26,290	45,741	105,438	55,917	233,386
TOTAL LIABILITIES AND FUND BALANCES	\$ 29,213	\$ 45,741	\$ 111,515	\$ 55,917	\$ 242,386

LIBERTY TOWNSHIP

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2006

	Building Dept.	Fire Equip.	Central Complex	Improvement Revolving	Total
REVENUE					
Permits	\$ 47,629	\$ ---	\$ ---	\$ ---	\$ 47,629
State Grants	---	---	---	---	---
Interest Earned	171	594	2,201	1,693	4,659
Miscellaneous	1,602	1,600	---	---	3,202
Property Taxes	---	---	---	---	---
Impact Fee	---	31,353	14,984	---	46,337
TOTAL REVENUE	49,402	33,547	17,185	1,693	101,827
EXPENDITURES					
Public Works	---	---	---	---	---
Public Safety	41,124	52	---	---	41,176
Recreation and Cultural	---	---	---	---	---
Debt Service	---	16,631	---	---	16,631
Capital Outlay	---	5,055	---	---	5,055
TOTAL EXPENDITURES	41,124	21,738	---	---	62,862
EXCESS OF REVENUE OVER EXPENDITURES	8,278	11,809	17,185	1,693	38,965
TRANSFERS IN	---	---	---	---	---
FUND BALANCES - BEGINNING OF YEAR	18,012	33,932	88,253	54,224	194,421
FUND BALANCES - END OF YEAR	\$ 26,290	\$ 45,741	\$ 105,438	\$ 55,917	\$ 233,386

BUILDING DEPARTMENT FUND

BALANCE SHEET

JUNE 30, 2006

ASSETS

Cash	\$ 29,213
Accounts Receivable	---
Prepaid Expenses	---
TOTAL ASSETS	<u>\$ 29,213</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ ---
Due to Other Funds	2,923
TOTAL LIABILITIES	<u>2,923</u>

FUND BALANCE

Reserved	---
Unreserved - Designated	26,290
TOTAL FUND BALANCE	<u>26,290</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 29,213</u>
---	-------------------------

BUILDING DEPARTMENT FUND**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL****YEAR ENDED JUNE 30, 2006**

	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Administrative Fee	\$ 10,500	\$ 11,260	\$ 760
Building Permits	12,500	18,270	5,770
Electrical Permits	6,500	7,149	649
Mechanical Permits	4,500	4,100	-400
Plumbing Permits	4,500	3,550	-950
Site Review Fee	3,750	3,300	-450
Interest	100	171	71
Miscellaneous	---	1,602	1,602
TOTAL REVENUE	42,350	49,402	7,052
EXPENDITURES			
<u>Administrative Expenses</u>			
Office Supplies	1,000	59	941
Professional Fees	1,000	280	720
Miscellaneous	---	52	-52
Total Administrative Expenses	2,000	391	1,609
<u>Building Inspection</u>			
Fees	10,402	10,759	-357
Administrative Assistant	8,400	9,368	-968
Payroll Taxes	3,457	2,448	1,009
Office Supplies	100	534	-434
Conferences and Workshops	700	126	574
Software Tech	425	420	5
Total Building Inspection	23,484	23,655	-171
<u>Electrical Inspection</u>			
Fees	5,572	5,963	-391
Office Supplies	50	---	50
Conferences and Workshops	200	200	---
Other	1,044	---	1,044
Total Electrical Inspection	6,866	6,163	703

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
<u>Mechanical Inspection</u>			
Fees	\$ 4,092	\$ 2,599	\$ 1,493
Office Supplies	200	200	---
Conferences and Workshops	767	---	767
Other	---	---	---
Total Mechanical Inspection	5,059	2,799	2,260
<u>Plumbing Inspection</u>			
Fees	4,092	5,087	-995
Conferences and Workshops	200	200	---
Other	767	---	767
Total Plumbing Inspection	5,059	5,287	-228
Site Reviews	3,345	2,829	516
TOTAL EXPENDITURES	45,813	41,124	4,689
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-3,463	8,278	11,741
TRANSFERS IN <OUT>	---	---	---
FUND BALANCE -BEGINNING OF YEAR	18,012	18,012	---
FUND BALANCE - END OF YEAR	\$ 14,549	\$ 26,290	\$ 11,741

FIRE EQUIPMENT FUND**BALANCE SHEET****JUNE 30, 2006****ASSETS**

Cash	\$ 30,640
Accounts Receivable	9,024
Taxes Receivable	---
Prepaid Expenses	---
Due from Other Funds	6,077

TOTAL ASSETS	\$ 45,741
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LIABILITIES AND FUND BALANCE**LIABILITIES**

Accounts Payable	\$ ---
Due to Other Funds	---
TOTAL LIABILITIES	---

FUND BALANCE

Unreserved - Designated	45,741
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TOTAL LIABILITIES AND FUND BALANCE	\$ 45 741
---	------------------

FIRE EQUIPMENT FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Property Taxes - Real	\$ ---	\$ ---	\$ ---
Current Property Taxes - Personal	---	---	---
State Revenue	---	---	---
Interest Earned	1,115	594	-521
Impact Fee	150	31,353	31,203
Miscellaneous	---	1,600	1,600
TOTAL REVENUE	1,265	33,547	32,282
EXPENDITURES			
Debt Service	---	16,631	-16,631
Capital Outlay	95,000	5,055	89,945
Administrative	---	52	-52
TOTAL EXPENDITURES	95,000	21,738	73,262
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-93,735	11,809	105,544
TRANSFERS IN	---	---	---
FUND BALANCE - BEGINNING OF YEAR	33,932	33,932	---
FUND BALANCE - END OF YEAR	\$ -59,803	\$ 45,741	\$ 105,544

CENTRAL COMPLEX FUND**BALANCE SHEET****JUNE 30. 2006****ASSETS**

Cash	\$ 107,003
Accounts Receivable	4,512
Taxes Receivable	---
Prepaid Expenses	---
Due from Other Funds	---

TOTAL ASSETS	<u>\$ 111,515</u>
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LIABILITIES AND FUND BALANCE**LIABILITIES**

Accounts Payable	\$ ---
Due to Other Funds	6,077
TOTAL LIABILITIES	<u>6,077</u>

FUND BALANCE

Unreserved - Designated	105,438
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 111,515</u>
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CENTRAL COMPLEX FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Property Taxes - Real	\$ ---	\$ ---	\$ ---
Current Property Taxes - Personal	---	---	---
State Revenue	---	---	---
Interest Earned	498	2,201	1,703
Impact Fee	75	14,984	14,909
Miscellaneous	---	---	---
TOTAL REVENUE	573	17,185	16,612
EXPENDITURES			
Debt Service	---	---	---
Capital Outlay	---	---	---
Administrative	---	---	---
TOTAL EXPENDITURES	---	---	---
EXCESS REVENUE OVER EXPENDITURES	573	17,185	16,612
TRANSFERS IN	---	---	---
FUND BALANCE - BEGINNING OF YEAR	88,253	88,253	---
FUND BALANCE - END OF YEAR	\$ 88,826	\$ 105,438	\$ 16,612

IMPROVEMENT REVOLVING FUND**BALANCE SHEET****JUNE 30, 2006****ASSETS**

Cash	\$ 41,990
Accounts Receivable	---
Taxes Receivable	---
Prepaid Expenses	---
Due from Other Funds	13,927

TOTAL ASSETS	\$ 55,917
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LIABILITIES AND FUND BALANCE**LIABILITIES**

Accounts Payable	\$ ---
Due to Other Funds	---
TOTAL LIABILITIES	---

FUND BALANCE

Unreserved - Designated	55,917
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TOTAL LIABILITIES AND FUND BALANCE	\$ 55,917
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IMPROVEMENT REVOLVING FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Property Taxes - Real	\$ ---	\$ ---	\$ ---
Current Property Taxes - Personal	---	---	---
State Revenue	---	---	---
Interest Earned	993	1,693	700
Miscellaneous	---	---	---
TOTAL REVENUE	993	1,693	700
EXPENDITURES			
Capital Outlay	12,500	---	12,500
TOTAL EXPENDITURES	12,500	---	12,500
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-11,507	1,693	13,200
TRANSFERS IN	---	---	---
FUND BALANCE - BEGINNING OF YEAR	54,224	54,224	---
FUND BALANCE - END OF YEAR	\$ 42,717	\$ 55,917	\$ 13,200

DEBT SERVICE FUND

SEWER FUND**BALANCE SHEET****JUNE 30, 2006****ASSETS**

Cash	\$	---
Assessments Receivable		553,791
Taxes Receivable		---
Prepaid Expenses		---
Due from Other Funds		---

TOTAL ASSETS\$ 553,791**LIABILITIES AND FUND BALANCE****LIABILITIES**

Accounts Payable	\$	---
Deferred Revenue		553,791
Due to Other Funds		---

TOTAL LIABILITIES**FUND BALANCE**

Reserved		---
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TOTAL LIABILITIES AND FUND BALANCE\$ 553,791

SEWER FUND**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL****YEAR ENDED JUNE 30, 2006****REVENUE**

Current Property Taxes - Real	\$	---
Current Property Taxes - Personal		---
Special Assessments		78,235
State Revenue		---
Interest Earned		145
Miscellaneous		---
TOTAL REVENUE		<u>78,380</u>

EXPENDITURES

Debt Service		91,810
Administrative		937
Transfers to Other Governments (See Note 12)		1,032,261
TOTAL EXPENDITURES		<u>1,125,008</u>

EXCESS REVENUE OVER <UNDER> EXPENDITURES **-1,046,628****TRANSFERS IN** **---****FUND BALANCE - BEGINNING OF YEAR** **1,046,628****FUND BALANCE - END OF YEAR** **\$ **---****

FIDUCIARY FUNDS

PENSION TRUST
STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS

Cash	\$ ---
Investments	79,398
Accounts Receivable	16,935
	<u>96,333</u>

LIABILITIES

Due to Other Funds	---
Due to Other Governments	---
	<u>---</u>

NET ASSETS

Reserved	96,333
Unreserved	---
	<u>\$ 96,333</u>

PENSION TRUST
STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2006

REVENUE

Employer Contributions	\$ 16,935
Employee Contributions	---
Investment Income	6,492
TOTAL REVENUE	<u>23,427</u>

EXPENSES

Administration	---
Benefits	3,428
Refunds	---
TOTAL EXPENSES	<u>3,428</u>

EXCESS OF REVENUE OVER EXPENSES	19,999
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NET ASSETS - BEGINNING OF YEAR	76,334
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NET ASSETS - END OF YEAR	<u><u>\$ 96,333</u></u>
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AGENCY FUNDS

BALANCE SHEET

JUNE 30, 2006

ASSETS	Employee Withholding Fund	Current Tax Fund	Total
Cash	\$ 2,375	\$ 1,520	\$ 2,990
LIABILITIES			
Due to Other Funds	\$ ---	\$ 1,370	\$ 1,370
Due to Other Governments	2,375	150	2,525
	\$ 2,375	\$ 1,520	\$ 3,895

EMPLOYEE WITHHOLDING FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED JUNE 30, 2006

	7-01-05 Balance	Receipts	Disbursements	06-30-06 Balance
ASSETS				
Cash	\$ 7,011	\$ 29,507	\$ 34,143	\$ 2,375
Due From Other Funds	12	---	12	---
	\$ 7,023	\$ 29,507	\$ 34,155	\$ 2,375
LIABILITIES				
Due to General Fund	\$ 298	\$ ---	\$ 298	\$ ---
Due to Federal Government	6,725	26,382	30,732	2,375
Due to State Government	---	3,125	3,125	---
Due to Schools	---	---	---	---
Due to Other	---	---	---	---
	\$ 7,023	\$ 29,507	\$ 34,155	\$ 2,375

CURRENT TAX FUND**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES****YEAR ENDED JUNE 30, 2006**

	7-01-05 Balance	Receipts	Disbursements	06-30-06 Balance
ASSETS				
Cash	\$ 574	\$ 2,837,251	\$ 2,836,305	\$ 1,520
LIABILITIES				
Due to General Fund	\$ 487	\$ 105,921	\$ 105,038	\$ 1,370
Due to Sewer Assessment	---	78,235	78,235	---
Due to County	87	1,301,311	1,301,248	150
Due to Schools	---	1,343,498	1,343,498	---
Due to Other	---	8,286	8,286	---
	\$ 574	\$ 2,837,251	\$ 2,836,305	\$ 1,520

CURRENT TAX FUND**STATEMENT OF RECEIPTS AND DISBURSEMENTS****YEAR ENDED JUNE 30, 2006****RECEIPTS**

Tax Collections	<u>\$ 2,837,251</u>
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DISBURSEMENTS

Township General Fund	\$ 105,038
Columbia Schools	103,600
Hanover-Horton Schools	486,681
Jackson Schools	8,029
North Adams Schools	7,407
Addison Schools	128
Lenawee ISD	1,241
Hillsdale ISD	2,407
Jackson ISD	734,005
Sewer	78,235
Jackson County	1,301,248
Other	8,286
	<u>\$ 2,836,305</u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Township Board
Liberty Township

We have audited the general-purpose financial statements of Liberty Township as of and for the year ended June 30, 2006, and have issued our report thereon dated December 18, 2006. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Liberty Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Liberty Township's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of Township Board, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, P.C.
Certified Public Accountant

December 18, 2006

Karl L. Drake, P.C.
Certified Public Accountant

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Horton, Michigan 49246

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December 18, 2006

Board of Directors
Liberty Township
Clarklake, Michigan 49234

We have audited the financial statements of Liberty Township for the year ended June 30, 2006, and have issued our report thereon dated December 18, 2006. In planning and performing our audit of the financial statements, we considered the Township's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control structure.

The management of Liberty Township is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded in accordance with United States generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Therefore, we have prepared the following comments and recommendations to communicate the results of our testing and observations, and to make suggestions to improve upon the existing internal control structure.

Reportable Conditions:

BANK RECONCILIATION PROCEDURE

Finding: The General Fund and Building Fund bank accounts had not been reconciled to the general ledger at any point during the year. The Treasurer has been reconciling his manual check register to the bank, but the reconciliation between the bank statement and general ledger cash account had not been performed. Because the general ledger represents the official accounting records of the Township, it is imperative that the bank statement be reconciled with the general ledger cash balance for all funds and accounts as soon as practical. This finding is repeated from the prior year audit.

Recommendation: The information necessary to reconcile the bank balance to the general ledger (the bank statement and a copy of the Treasurer's manual reconciliation) should be provided to the staff promptly each month, so that any necessary corrections can be recorded in the general ledger.

RESTRICTED FUND ACCOUNTING PROCEDURES

Finding: Currently no general ledger is maintained for the Fire Equipment Fund, the Central Complex Fund, the Improvement Revolving Fund, the Employee Withholding Fund, or the Tax Collection Fund.

Recommendation: General Ledgers need to be established using the software currently used for the General Fund and Building Department Funds. These general ledgers need to be reconciled with the bank statements on a monthly basis.

Other Matters for Consideration:

FINANCIAL OVERVIEW

The Township finished the year in stable financial health. The General Fund finished the year with a Fund Balance of \$191,136. This was an increase of \$5,561 over the prior year level. All of the Special Revenue funds finished with an increase in fund balance over the prior year amounts.

The Sewer Fund is now considered a debt retirement fund, because no operational activity is occurring in the fund. Its function at this point is to collect special assessment revenue and to pay bond payments.

LATE PAYROLL TAX PAYMENTS

The Township has received several notices from the Internal Revenue Service regarding late filing of payroll tax returns. The procedures that the Township has in place are sound (monies transferred with each payroll to the Employee Withholding Fund – payroll taxes paid out of the Employee Withholding Fund when due), but communication and timely execution of the procedures is poor. Payroll taxes are not very complicated, and should be handled easily every month, if the Treasurer and Clerk work together to accomplish the necessary task.

The above comments are intended for the use of the Board of Directors and management of Liberty Township. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in cursive script that reads "Karl L. Drake". The signature is written in dark ink and is positioned below the word "Sincerely,".

Karl L. Drake, CPA